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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended January 31, 1992

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition period from _____ to _____

Commission file number ~~11-10980~~ 0-17872

GRUDGE MUSIC GROUP, INC.

(Exact name of registrant as specified in its charter)

New York	13-3305264
(State of Incorporation)	(IRS Employer I.D. No.)

185 Franklin Street
New York, NY 10013
(212) 226-9688
(Address of Principal Executive Offices and Principal Place of Business and Telephone No.)

37 North Broadway
Nyack, New York 10960
(914) 358-7711
(Former name, former address and former year, if changed since last report)

PROCESSED BY
MAR 31 1992
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.
Yes __X__ No _____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

COMMON STOCK, $.0001 PAR VALUE-- 9,979,958 SHARES AS OF January 31, 1992

GRUDGE MUSIC GROUP, INC.

INDEX

	Page No.
PART I FINANCIAL INFORMATION	3
Condensed Balance Sheet January 31, 1992 and October 31, 1991	3-4
Condensed Statement of Income Three months ended January 31, 1992 and 1991	5
Statements of Cash Flows Three months ended January 31, 1992 and 1991	6
Statements of Cash Flows (Supplemental Information) Three months ended January 31, 1992 and 1991	7
Notes to Condensed Financial Statements	8-11
Management's Discussion and Analysis of Financial Condition and Results of Operations	12
PART II OTHER INFORMATION	13
Item 1. Legal Proceedings	13
Item 6. Exhibits and Reports on Form 8-K	13
SIGNATURES	14

PART I - FINANCIAL INFORMATION

GRUDGE MUSIC GROUP, INC.

CONDENSED BALANCE SHEET

ASSETS

	31-Jan-92	31-Oct-91
CURRENT ASSETS		
Cash in bank	$ 38,853	$ 348,312
Accounts Receivable (Note 1)	18,698	0
Inventory	226,105	143,218
TOTAL CURRENT ASSETS	$ 283,656	$ 491,530
OTHER ASSETS		
Debentures Receivable	124,000	0
Land	274,900	0
Master Tapes - net	490,317	518,627
Fixed Assets - net	1,136,213	7,684
Intangible Assets - net	845,954	
Deferred Convertible Debenture Costs (Note 3)	97,167	60,670
Deposits	7,061	4,019
TOTAL ASSETS	$ 3,259,268	$ 1,082,530

The accompanying notes are an integral part of these condensed financial statements.

GRUDGE MUSIC GROUP, INC.

LIABILITIES

	31-Jan-92	31-Oct-91
CURRENT LIABILITIES		
Accounts Payable	$ 443,836	$ 315,702
Interest Payable	21,733	0
Taxes Payable	29,336	18,421
Convertible Debentures Payable (Note 3)	1,047,500	675,500
TOTAL LIABILITIES	$ 1,542,405	$ 1,009,623
LONG-TERM DEBT		
Notes Payable (Note 2)	$ 1,900,000	$ 0
STOCKHOLDERS' EQUITY		
Capital Stock, Common	$ 998	$ 998
Additional Paid-in Capital	2,464,578	2,464,578
Contributed Capital		
Retained Earnings (deficit)	(2,648,713)	(2,392,669)
TOTAL STOCKHOLDERS' EQUITY	$ (183,137)	$ 72,907
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,259,268	$ 1,082,530

The accompanying notes are an integral part of these condensed financial statements.

GRUDGE MUSIC GROUP, INC.

CONDENSED STATEMENT OF INCOME
For the Three months ended January 31, 1992 and 1991

	31-Jan-92	31-Jan-91
Revenue (Note 1)	$ 27,722	$ (11,782)
Other Income		
Total Revenues	$ 27,722	$ (11,782)
Selling, General and Administrative Expenses	$ 228,903	$ 53,531
Depreciation & Amortization	54,863	31,440
	$ 283,766	$ 84,971
Net Income (loss)-Before Non-recurring Items	$ (256,044)	$ (96,753)
Inventory Write-down	0	100,907
Debenture Costs	0	18,009
Net Income (loss) - Before Income Taxes	$ (256,044)	$ (215,669)
Income Taxes		
NET INCOME (LOSS)	$ (256,044)	$ (215,669)
Per share amounts		
Primary Net Income	$ (0.03)	$ (0.02)

The accompanying notes are an integral part of these condensed financial statements.

GRUDGE MUSIC GROUP , INC.
CONDENSED STATEMENTS OF CASH FLOWS
For the Three Months ended January 31, 1992 and 1991

	31-Jan-92	31-Jan-91
Cash flows from:		
OPERATING ACTIVITIES		
Net Income (loss)	$ (256,044)	$ (215,669)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation & Amortization	54,863	31,440
Interest acrual converted to Equity (Note 9)		720
(Increase) Decrease in:		
Receivables	(18,698)	11,782
Inventories	(82,887)	112,124
Subscriptions Receivable	(124,000)	
Other Assets	(3,042)	6,000
Deferred Debenture Costs	(36,497)	18,009
Increase (decrease) in:		
Accounts Payables	$ 160,782	$ 7,044
Net Cash provided (used) by operating activities	$ (305,523)	$ (28,550)
INVESTING ACTIVITIES:		
Master tapes expenditures	$ (2,500)	$
Land	(274,900)	
Fixed Asset Acquisition	(1,998,536)	
Cash used in investing activities	$ (2,275,936)	$ 0
FINANCING ACTIVITIES:		
Issuance of Mortgage Notes Payable	$ 1,700,000	$
Issuance of Common Stock		
Proceeds from borrowings from Officers'		57,570
Proceeds from issuance of Convertible Debentures	372,000	
Note Payable - Shareholder (Note 2)	200,000	
Cash provided by financing activities	$ 2,272,000	$ 57,570
Net increase (decrease) in cash and cash activities	$ (309,459)	$ 29,020
Cash and cash equivalents at beginning of the quarter	348,312	(27,991)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 38,853	$ 1,029

The accompanying notes are an integral part of these condensed financial statements.

GRUDGE MUSIC GROUP, INC.

CONDENSED STATEMENTS OF CASH FLOWS

SUPPLEMENTAL INFORMATION

For the Three Months ended January 31, 1992 and 1991

SUPPLEMENTAL SCHEDULE OF NON CASH FINANCING ACTIVITIES:

	Three Months Ended 1/31/92	1/31/91
Conversion of Debt to Common Stock (Note 9)	$0	$123,290

The accompanying notes are an integral part of these condensed financial statements.

GRUDGE MUSIC GROUP, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS

INVENTORY

The inventory is stated at lower of cost or market.

MASTER TAPES AND ARTIST ADVANCES

Master tapes and artist advances are deferred costs which are amortized to the net revenue that is expected to be realized. The Master tapes and artist advances that subsequently appear not to be fully recoverable from future sales and where a cost is expected to occur, are written-off immediately. The determination to capitalize these costs is based upon past performance and current popularity of the record master. The amortization expense for the fiscal year ending October 31, 1990, was be 14.3 % of the total cost, 57.2 % will be amortized by October 31, 1992, and 60 % of the total cost will be amortized during the year ending October 31, 1993. Amortization aggregating $ 341,555 has been provided as of October 31, 1991 and $ 372,365 as of January 31, 1992.

EQUIPMENT

Equipment is carried net of accumulated depreciation which is calculated on the straight line method. The estimated useful life for recording equipment and office equipment is five years.

INTANGIBLES

The costs of Intangible assets (Goodwill, Contracts, and Water Rights) are amortized over the expected useful life of the assets.

EARNINGS PER SHARE

Earnings per share computations reflect the effect of the additional issuance of shares in connection with the public offering. Prior period calculations have been restated.

GRUDGE MUSIC GROUP, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Grudge Music Group Inc. (the "Company") was incorporated on October 9, 1985, and commenced operations in July, 1986. It has elected a fiscal year end of October 31, with an initial year end of October 31, 1986. The Company engages in distribution and recording of records and tapes under the label of Pinnacle and Grudge Records. It is the Company's intent wherever possible to acquire music publishing rights.

During the quarter ended January 31, 1992, the Company purchased all of the assets of Echo Spring Water Co., Inc. and H.S.F. Inc. and commenced daily operations of these Companies. These Companies produce and market natural spring water throughout New York State. These Companies own the land, water rights, and production facilities and are not dependent on other Companies for their products or marketing facilities.

RECOGNITION OF SALES REVENUE

Revenue from sales of records are recognized based upon shipments of the Company's recording products by an independent distributor to retailers, net of actual or estimated returns. The Company's retailers have the right to return merchandise purchased. Under Financial Accounting Standards Board Statement No. 48, certain provisions are required for the Company to recognize sales where the right of return exists; the Company's sales policy satisfies this accounting pronouncement.

Revenues from water sales are recognized based upon actual shipments to customers on a final sales basis.

ACCOUNTS RECEIVABLE/SALES RETURNS

The Company's recording products are subject to return by retailers to the Company's independent distributor if not sold to the public. the Company's receivables are guaranteed by this distributor net of actual returns.

The Company's sales of water products are not subject to return by it's customers. Bottle deposits received are recorded as a current liability.

NOTE 2 - NOTES PAYABLE

The Company entered into mortgage notes payable in connection with certain Asset acquisitions (Note 1). These mortgage notes in the Amount of $ 200,000 and $ 1,500,000 carry interest at the rate of eight per cent (8 %) per annum and are due on November 6, 1993 and December 6, 1993 respectively. These notes require quarterly payments of interest only.

In addition to cash and mortgage notes, the purchase agreement for Echo Spring Water Co., Inc. called for the issuance of 2,000,000 shares of the common stock of the Company. To facilitate the completion of the purchase details, a major stockholder loaned these 2,000,000 shares to the Company from his personal holdings. This loan is secured by a non-interest bearing note payable in the amount of $200,000. It is the understanding of the parties that 2,000,000 new shares of the Company will be issued in replacement.

NOTE 3 - DEBENTURE PAYABLE

The Company has sold Five (5) year 10 % Convertible Debentures in a private offering secured by the Company's Trade Accounts Receivable. These debenture, in the amount of $ 422,500 and $ 750,000 are convertible, at the option of the holder, into eight (8) common shares and ten (10) common shares, respectively, for each ($1) of principal.

NOTE 4 - INCOME TAXES

The Company, for tax purposes, has elected to be taxed on a cash basis. This election results in the Company's remitting taxes to the Internal Revenue Service subsequent to these taxes being incurred for financial statement purposes. Under the Tax Reform Act of 1986, all companies were required to file their tax returns on the accrual basis. An exemption to this rule was made for entities that have less the $ 5 million in gross receipts for the three preceding years. If the Company, in the future, surpasses this exemption, it will be required to change from the cash basis method of tax preparation to the accrual method. The Company has operating loss carryforwards, on a cash basis, available for future offset against taxable income of:

$ 151,000 Expiring in 2003
$ 655,000 Expiring in 2004
$ 943,600 Expiring in 2005

GRUDGE MUSIC GROUP, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 6 - LEASE COMMITMENTS

During the quarter the Company entered into a lease agreement for administrative office space in Utica, New York. This lease is for a term of three (3) years and calls for a monthly rental of $ 1,000 including utilities.

NOTE 7 - DIVIDENDS

The Company presently does not anticipate paying any dividends in the foreseeable future.

NOTE 8 - DISTRIBUTION AGREEMENT

The Company on November 1, 1988, entered into a long-term distribution agreement for its Grudge Records label with one of the six major music distributors in the United States. Under the arrangement, the Company will be utilizing the sales force, manufacturing facilities, and advertising arrangements of this distributor. Payment of accounts receivable is guaranteed under this agreement.

GRUDGE MUSIC GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THREE MONTHS ENDED JANUARY 31, 1992 COMPARED WITH THE THREE MONTHS ENDED JANUARY 31, 1991:

The Company posted a net loss of $ 256,044 or $ .03 per share versus a loss of $ 215,609 or $ .02 per share a year earlier. Revenue increased $ 39,504 from the previous year.

Selling, general, and administrative expenses increased from $ 53,531 to $ 228,903 or more than 400 %. This increase is directly attributable to the Company's entrance into the bottled water business. The Company incurred initial start up expenses as well as a sharp increase in hiring factory and office personnel and the opening of an administrative office in Utica, New York.

LIQUIDITY AND CAPITAL RESOURCES:

The Company's primary sources of liquidity have been from it's initial public offering, cash generated from sales, issuance of convertible debentures, and borrowings from it's officers'.

At January 31, 1992, the Company had $ 38,853 in cash and a negative net worth of $ 183,137. The Company is in the process of completing a private offering of Convertible debentures in the maximum amount of $ 750,000. As of the signing date of the form 10-Q, this offering has been completed. Additionally, the Company has a proxy pending with the Securities and Exchange Commission. One of the proposals to be voted upon by the Company's shareholders is to increase Common Stock authorization to 50,000,000 shares. This increase would allow the Company the flexibility to convert outstanding debenture obligations to equity. There can be no assurance that the Company will be successful in converting these debentures into equity or that additional funds will not be needed in the future.

Additionally, the Company is readying a release with Michael Winslow of "Police Academy" fame and is working on it's current catalogue, including having been asked to propose music for a motion picture soundtrack. Management can make no assurances as to the success or final interest in these projects.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various litigation's involving payment for services rendered. These costs are already included in the Accounts Payable section of the balance sheet and no other provisions need be made.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) None.

b) Reports on Form 8-K

1) November 6, 1991
2) December 12, 1991

GRUDGE MUSIC GROUP, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

Dated: March 24, 1992

COMPASS DISTRIBUTING INC.
(Registrant)

By: Victor G. Gregory
President

By: Michael Rakusin
Treasurer